

**STATE OF CALIFORNIA
DEPARTMENT OF INSURANCE
45 Fremont Street, 21st Floor
San Francisco, California 94105**

RH 01018819

September 20, 2002

**INITIAL STATEMENT OF REASONS
REGARDING CALIFORNIA LOW COST AUTOMOBILE INSURANCE RATES**

INTRODUCTION

California Insurance Commissioner Harry W. Low will hold a public hearing regarding the recommendation of the California Automobile Assigned Risk Plan (“CAARP”) that no change be made to the premiums for the California Low Cost Automobile Insurance Pilot Programs. Currently, the annual premium is \$450 per vehicle in the County of Los Angeles and \$410 per vehicle in the City and County of San Francisco. Surcharges also apply for certain drivers.

California Insurance Code Sections 11629.72(c) and 11629.92(c) provide that, annually, CAARP shall submit a proposed rate to the Commissioner for approval. Accordingly, CAARP has filed a rate application proposing to maintain the current rates. Further details appear in the application on file with the Commissioner and available for review.

California Insurance Code Sections 11629.7 through 11629.84 establish, within the California Automobile Assigned Risk Plan, a low-cost automobile insurance pilot program for the County of Los Angeles. Sections 11629.9 through 11629.995 of the Insurance Code establish, within the California Automobile Assigned Risk Plan, a low-cost automobile insurance pilot program for the City and County of San Francisco.

Because the low cost automobile insurance pilot programs are established and administered through CAARP, established under Sections 11620-11627 of the California Insurance Code, the Commissioner has determined that he will apply the CAARP procedures to the low cost automobile insurance pilot programs where appropriate and not inconsistent with the low cost automobile insurance statutes. Pursuant to California Insurance Code Sections 11620 and 11624, the Commissioner approves rates for those obtaining coverage through the assigned risk plan. Before amending premium rates for CAARP, the Commissioner holds a public hearing.

For the low-cost automobile insurance pilot programs, California Insurance Code Sections 11629.7 and 11629.9 require the Commissioner, after a public hearing, to approve or issue a reasonable plan for the equitable apportionment, among insurers, of eligible persons residing in the County of Los Angeles and the City and County of San Francisco. California Code of Regulations, Title 10, Chapter 5, Section 2498.6 references the plan. This plan, approved by the Commissioner, contains rules and rates.

Therefore, the Commissioner is holding this hearing to consider CAARP’s rate application to maintain the current rates for the low-cost automobile insurance program.

STATEMENT OF SPECIFIC PURPOSE

California Insurance Code Sections 11629.72(c) and 11629.92(c) require that, annually, CAARP submit to the Commissioner loss and expense data, together with a proposed rate for approval. CAARP has proposed to maintain the current rates for the low-cost automobile insurance program. The statutes specify that rates shall be sufficient to cover losses incurred under policies issued under the pilot program and expenses. In assessing loss reserves, the Commissioner shall only allow loss reserves estimated from actual losses in the pilot programs or comparable data by a licensed statistical agent, adjusted to reflect coverage provided by the pilot programs. Rates shall be set so as to result in no subsidy of the program or subsidy of policyholders in one pilot program by policyholders in the other pilot program. In accordance with these rate-setting standards, the Commissioner is holding a hearing to consider CAARP's rate proposal.

IDENTIFICATION OF STUDIES

The application relies upon the expertise of CAARP's technical staff. Other than the application and accompanying explanatory memorandum and exhibits, however, no studies have been submitted for this proceeding.

SPECIFIC ACTIONS, PROCEDURES, TECHNOLOGIES OR EQUIPMENT

Adoption of the proposed rate would not mandate the use of specific technologies or equipment.

REASONABLE ALTERNATIVES

The Commissioner has not yet identified reasonable alternatives which would be as effective to carry out the statutory mandate and be less burdensome to affected persons and small businesses. The Commissioner invites public comments on alternatives.

ECONOMIC IMPACT ON BUSINESS

The Commissioner has initially determined that the proposed rates will not have a significant adverse economic impact on businesses because the rates apply to private passenger automobile policies. The Commissioner invites interested parties to comment on whether the proposed rates will have a significant adverse economic impact on business.